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RUEHKO/AMEMBASSY TOKYO 3463
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RUEAIIA/CIA WASHDC
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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001486

SIPDIS

STATE FOR SCA/CEN; EEB;
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR EHOUSE

E.O. 12958: DECL: 11/19/2019
TAGS: [EPET](#) [ECON](#) [PGOV](#) [EINV](#) [BTIO](#) [TX](#)
SUBJECT: TURKMENISTAN: STATE HYDROCARBON AGENCY CHIEF
UNCERTAIN ABOUT GAS SALES TO RUSSIA

REF: A. ASHGABAT 1481
[1](#)B. ASHGABAT 1318

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY. Turkmenistan's State Hydrocarbon Agency Chief Yagshygeldi Kakayev told visiting SCA Deputy Assistant Secretary George Krol that foreign energy companies should either pursue offshore exploration blocks or onshore service contracts. Kakayev said the GOTX viewed most foreign energy companies as fairly equal competitors, stressing that the government focuses on the strength of a company's business proposal rather than the company's nationality. Kakayev was uncertain about when Russia would resume purchases of Turkmen gas, but suggested that Russia would purchase a reduced volume in 2010. He reiterated the GOTX's policy of selling gas at its border, while leaving transit pipeline building up to potential buyers. He also felt that liquified and compressed gas were not currently economical ways for the GOTX to get its gas to potential customers, but he stressed the GOTX was exploring many options to market its vast energy resources. END SUMMARY.

[1](#)2. (C) On November 16, DAS Krol met with Yagshygeldi Kakayev, head of the Turkmen State Agency for the Management and Use of Hydrocarbon Resources. Kakayev reiterated the GOTX's stance of only offering service contracts to foreign companies that want to operate onshore, citing that Turkmen law requires his agency to enforce this policy. In line with this policy, he noted that ExxonMobil, Chevron, Marathon, and others were working on proposals to partner with Turkmen state oil and gas companies, but to date these companies could only count on service contracts for onshore activities. He also stated that ConocoPhillips was very interested in developing an offshore block in the Caspian with its new UAE-based partner Mubadala (ref B). Kakayev acknowledged that the majority of U.S. companies in Turkmenistan would like an onshore production sharing agreement (PSA), but reiterated that the GOTX "could not go around the law."

13. (C) Kakayev told DAS Krol that there are other possibilities for foreign companies to partner with Turkmen energy companies besides a PSA. He briefly mentioned risk service agreements, but did not provide any details. (NOTE: It seems doubtful that the Turkmen would allow companies to book reserves as part of a risk management agreement, since the GOTX has indicated that allowing foreign companies to book reserves might threaten the country's energy supplies and security. END NOTE.)

14. (C) DAS Krol asked Kakayev if he thought U.S. energy companies were different from the other international oil and gas companies (IOCs) vying for energy deals in the country in light of the high technology and experience U.S. companies represent. Kakayev responded that every foreign company was unique in its own way, but the GOTX does not discriminate among the growing number of IOCs seeking deals in the country; he felt that most large IOCs had similar technology and experience in hydrocarbon development. He added it was advantageous to have a mix of companies from various countries, emphasizing that for the GOTX a company's business proposal is more important than from which country a company hails. In the same breath, Kakayev said that business with China was going well and the GOTX was in discussions with the Chinese Development Bank in order to assess opportunities to increase Chinese-Turkmen business in the energy sector (Comment: In contrast, the Chinese Ambassador confided to DAS Krol that while the pipeline has been a success, it was tough going and other aspects of doing business in Turkmenistan were awful.)

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15. (C) When asked about on-going gas negotiations with Russia, Kakayev was less positive than Deputy Chairman for Oil and Gas Hojамuhammedov who met with DAS Krol in the morning, stating that the gas standoff created a lose-lose situation for both countries (ref A). Kakayev asserted that it was unclear how much gas Russia would be willing to buy in 2010, but he was convinced it would be significantly less than prior to the April pipeline explosion. Also in contrast to Hojамuhammedov, Kakayev was not convinced that the ongoing gas row would be resolved soon. Kakayev hailed Turkmenistan's progress toward diversifying its gas customer base, citing the Central Asia pipeline that would pump up to 40 billion cubic meters of Turkmen gas to China annually and the new pipeline to Iran which will pump from 8-14 bcm of gas per year to the country's southern neighbor.

16. (C) When asked about a trans-Caspian pipeline, Kakayev repeated that the GOTX was not in the business of building pipelines outside Turkmenistan; the GOTX sells its gas at the border, and interested parties and potential customers need to arrange shipment from the Turkmen border. He noted that Turkmen officials attended meetings with representatives from the Caspian Development Corporation three times, highlighting that several "papers" were signed by the EU in order to promote the EU's Southern Corridor policy and the Nabucco pipeline. Kakayev insisted that the Turkmen remain engaged on plans to develop the Southern Corridor, but the GOTX would not deviate from its policy of selling gas at its borders only. He added that the GOTX was still very interested in getting gas further East via a Turkmenistan-Afghanistan-Pakistan-India pipeline, but he felt this project would remain idle until the political situation in Afghanistan became more stable. The GOTX views the Russian-proposed littoral pipeline along the Caspian coast as another viable option for selling an additional 10 bcm of gas.

17. (C) Kakayev discussed the GOTX's other options for creating revenue from its energy resources. He felt that offshore Caspian blocks provided potential private sector business opportunities, such as building and operating refineries, in the event additional oil and/or gas was

discovered. Liquified natural gas (LNG) and compressed natural gas (CNG) might be options for the future, but because of transportation costs, LNG and CNG were not yet economically viable options. He added that the GOTX is looking at using natural gas as an alternative to gasoline, and the GOTX is strongly considering setting up natural gas pumps at local fuel stations for vehicles that can run on natural gas.

18. (C) COMMENT. Kakayev's cautious take on gas negotiations with Russia differed significantly from Hojamammedov's positive view, but it's not obvious which interlocutor was being more straightforward. Many energy company representatives in Ashgabat for the Turkmenistan International Oil and Gas Exhibition (TIOGE) viewed the event as an opportunity to move closer to striking a deal with the reluctant Turkmen, given the GOTX's well-known pledge to diversify its gas clientele and the continuing breach with Gazprom. In his meeting with DAS Krol, however, it appeared that Kakayev, at least, was content to repeat his usual talking points, while avoiding sending any clear signals to eager U.S. companies that the GOTX was ready to do business. END COMMENT.

19. (U) DAS Krol cleared this cable.
CURRAN